

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Chain of Lakes Area Utilities Authority	County Newaygo
Fiscal Year End 3/31/07	Opinion Date 7/16/07	Date Audit Report Submitted to State 7/24/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

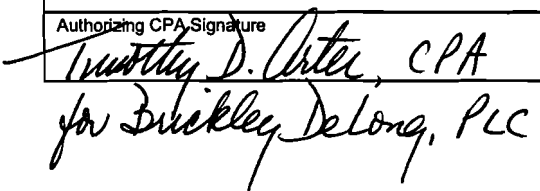
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) BRICKLEY DELONG PLC		Telephone Number 231-726-5800	
Street Address 316 MORRIS AVENUE		City MUSKEGON	State MI
		Zip 49443	
Authorizing CPA Signature 		Printed Name TIMOTHY D. ARTER	License Number 10253

Chain of Lakes Area Utilities Authority  
Newaygo County, Michigan

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended March 31, 2007

Chain of Lakes Area Utilities Authority

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This section of the Chain of Lakes Area Utilities Authority (Authority) annual financial report presents our discussion and analysis of the Authority's financial performance during the year ended March 31, 2007. Please read it in conjunction with the Authority's financial statements, which immediately follow this section.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Chain of Lakes Area Utilities Authority financially as a whole. The basic financial statements are comprised of the following elements:

**Management's Discussion and Analysis (MD&A)**

(Required Supplemental Information)

**Basic Financial Statements**

Financial Statements

Statement of Net Assets

Statement of Revenues, Expenses and Changes in Activities

Statement of Cash Flows

Notes to Basic Financial Statements

The Statement of Net Assets provides balances as of the end of the reporting period. The Statement of Revenues, Expenses, and Changes in Net Assets provides information related to the activities of the Authority during the year. The Statement of Cash Flows presents detailed information about the Authority's cash collections and disbursements during the year. The notes to the financial statements provides the reader specific information related to accounting policies and certain balances in the financial statements.

**Financial Overview**

Recall that the statement of net assets provides the perspective of the Authority as a whole.

**Net Assets**

	2007	2006
Current assets and other assets	\$ 3,959,265	\$ 4,871,338
Capital assets	7,698,024	7,811,258
Total assets	11,657,289	12,682,596
Current liabilities	614,722	948,007
Noncurrent liabilities	5,882,078	6,309,320
Total liabilities	6,496,800	7,257,327
Net assets		
Invested in capital assets, net of related debt	1,388,704	1,098,871
Restricted	3,766,866	4,215,543
Unrestricted	4,919	110,855
Total net assets	\$ 5,160,489	\$ 5,425,269

The above table focuses on assets, liabilities and net assets. The Authority's current assets and other assets decreased due to normal repayment of long-term debt and a drop in accounts payable. Capital assets represents land, easements, infrastructure and the actual plant. Capital assets decreased due to normal depreciation. Current liabilities decreased due a reduction in year end accounts payable. The prior year accounts payable included a significant amount of legal fees related to a lawsuit against the plant engineer firm. Long-term debt decreased due to normal scheduled repayment of debt.

Net assets represents the difference between the Authority's assets and liabilities. Net assets are split into three components. Invested in capital assets, net of related debt represents the cost of the capital assets net of accumulated depreciation less outstanding long-term debt incurred in constructing the plant. Invested in capital assets decreased due to normal schedule debt payments exceeding normal depreciation. Since capital assets represent physical assets, they are not available to pay current expenditures. Restricted net assets represents resources restricted for repayment of long-term debt and decreased due to normal scheduled payments. The remaining portion of net assets is unrestricted, and it is available to pay future costs.

In comparing this years statement of change in net assets to last years statement, charges for services increased due to having a full year of billings for all customers. In the prior year, not all accounts were hooked up and billed until later in the year. The results of this year's operations for the Authority are reported in the statement of activities, which shows the changes in net assets for fiscal year 2007. Investment earnings decreased due to a drop in funds invested and a drop in the balance of outstanding special assessments.

**Changes in Net Assets**

	2007	2006
Revenues		
Charges for services	\$ 267,549	\$ 221,822
Expenses		
Administration	12,213	10,966
Operations	290,896	297,968
Depreciation	155,167	154,311
Total expenses	<u>458,276</u>	<u>463,245</u>
Operating income (loss)	(190,727)	(241,423)
Nonoperating revenues (expenses)		
Investment earnings	\$ 182,622	\$ 213,724
Interest expense	<u>(256,675)</u>	<u>(262,083)</u>
Total nonoperating revenues (expenses)	<u>(74,053)</u>	<u>(48,359)</u>
Income (loss) before special item	(264,780)	(289,782)
Litigation settlement - net	<u>-</u>	<u>89,903</u>
Change in net assets	(264,780)	(199,879)
Net assets - Beginning	<u>5,425,269</u>	<u>5,625,148</u>
Net assets - Ending	<u><u>\$ 5,160,489</u></u>	<u><u>\$ 5,425,269</u></u>

**Capital Asset and Debt**

**Capital Assets**

At March 31, 2007, the Authority had \$7,698,024 (after accumulated depreciation) invested in the Authority's sewer system. This amount represents a net decrease (including additions and depreciation) of \$113,234 from last year. The capital asset decrease was the result of normal depreciation partially offset by final construction costs.

**Debt**

During the year, the Authority's long-term debt decreased by \$422,584. This decrease was due to normal required debt payments. The Authority ended the year with total debt outstanding of \$6,309,320.

**Economic Factors**

The fiscal year ended March 31, 2007 was the first full year operations. As a result of the current year decrease in net assets, the Authority undertook a number of changes. Billing rates were increased in May 2007. The Authority also terminated the management contract for the management of the wastewater system in order to manage the system internally in an attempt to reduce future costs. As part of the termination agreement the Authority incurred a \$45,000 costs which included the termination of the management agreement and transfer of certain assets of the management company to the Authority.

**Contacting the Authority Financial Management**

This financial report is designed to provide a general overview of the Authority's finances for all those interested in the Authority's finances. If you have any questions about this report or need additional information, contact the Chain of Lakes Area Utilities Authority at P.O. Box 456, White Cloud, MI 49349.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

July 16, 2007

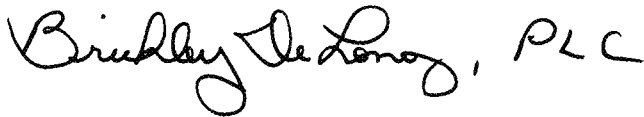
Board of Directors  
Chain of Lakes Area Utilities Authority  
Newaygo, Michigan

We have audited the accompanying financial statements of the Chain of Lakes Area Utilities Authority as of and for the year ended March 31, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Chain of Lakes Area Utilities Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chain of Lakes Area Utilities Authority, as of March 31, 2007, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages i - iii is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Chain of Lakes Area Utilities Authority  
**STATEMENT OF NET ASSETS**  
March 31, 2007

ASSETS

CURRENT ASSETS

Cash and investments	\$ 21,405
Receivables	
Accounts	51,421
Interest	11,200
Prepaid items	<u>4,873</u>
Total current assets	88,899

NONCURRENT ASSETS

Restricted assets	
Cash and investments	738,046
Special assessments	3,132,320
Capital assets, net	
Nondepreciable	250,000
Depreciable	<u>7,448,024</u>
Total noncurrent assets	<u>11,568,390</u>
Total assets	11,657,289

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	74,515
Accrued liabilities	103,806
Due to other governmental units	9,159
Bonds and other obligations, due within one year	<u>427,242</u>
Total current liabilities	614,722

NONCURRENT LIABILITIES

Bonds and other obligations, less amounts due within one year	<u>5,882,078</u>
Total liabilities	<u>6,496,800</u>

NET ASSETS

Invested in capital assets, net of related debt	1,388,704
Restricted for debt service	3,766,866
Unrestricted	<u>4,919</u>
Total net assets	<u>\$ 5,160,489</u>

The accompanying notes are an integral part of this statement.



Chain of Lakes Area Utilities Authority  
**STATEMENT OF ACTIVITIES**  
For the year ended March 31, 2007

<b>REVENUES</b>	
Charges for services	\$ 267,549
<b>OPERATING EXPENSES</b>	
Administration	
Wages and benefits	12,213
Operations	
Contracted services	244,226
Repairs and maintenance	21,191
Miscellaneous	5,643
Office supplies	5,214
Insurance	5,814
Professional fees	8,808
Depreciation	155,167
Total operating expenses	<u>458,276</u>
Operating loss	(190,727)
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment earnings	182,622
Interest expense	<u>(256,675)</u>
Total nonoperating revenues (expenses)	<u>(74,053)</u>
Change in net assets	(264,780)
Net assets at April 1, 2006	<u>5,425,269</u>
Net assets at March 31, 2007	<u><u>\$ 5,160,489</u></u>

The accompanying notes are an integral part of this statement.

Chain of Lakes Area Utilities Authority  
**STATEMENT OF CASH FLOWS**  
For the year ended March 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 231,690
Payments to suppliers	(369,928)
Payments to employees	<u>(23,388)</u>
Net cash used for operating activities	(161,626)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Intergovernmental loans	(54,844)
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Special assessments	245,887
Purchases of capital assets	(41,933)
Litigation settlement, net	299,734
Principal paid on capital debt	(422,584)
Interest paid on capital debt	<u>(254,175)</u>
Net cash used for capital and related financing activities	(173,071)

CASH FLOW FROM INVESTING ACTIVITIES

Investment earnings	<u>182,925</u>
Net decrease in cash and investments	(206,616)

Cash and investments at April 1, 2006

966,067

Cash and investments at March 31, 2007

\$ 759,451

Reconciliation of cash and investments to the Statement of Net Assets

Cash and investments	\$ 21,405
Restricted assets	738,046
	<u>\$ 759,451</u>

Reconciliation of operating loss to net cash used for operating activities

Operating loss	\$ (190,727)
Adjustments to reconcile operating loss to net used for operating activities	
Depreciation expense	155,167
Change in assets and liabilities	
Receivables, net	(35,859)
Prepaid items	(4,873)
Accounts payable	(74,159)
Accrued liabilities	<u>(11,175)</u>
Net cash used for operating activities	<u>\$ (161,626)</u>

The accompanying notes are an integral part of this statement.

Chain of Lakes Area Utilities Authority  
**NOTES TO FINANCIAL STATEMENTS**  
March 31, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Chain of Lakes Area Utilities Authority (Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

***Reporting Entity***

The Authority is organized pursuant to the provisions of Act 233 PA 1955. The Authority was created by the Townships of Brooks, Evertt and Garfield. The Authority is governed by a six member board appointed by the participating governmental units.

Generally accepted accounting principles require that if the Authority has certain oversight responsibilities over other organizations, those organizations should be included in the Authority's financial statements. Since no organizations met this criteria, none are included in the financial statements.

***Measurement Focus, Basis of Accounting and Financial Statement Presentation***

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Operating revenues and expenses generally result from providing services from ongoing operations. The principal operating revenues are charges to customers for sales and services. The Authority also recognizes as operating revenue the connection fees. These fees intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Chain of Lakes Area Utilities Authority  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Assets, Liabilities and Net Assets or Equity*

**Deposits and Investments**

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Authority reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Authority intends to hold the investment until maturity.

The Authority has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Authority to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

**Receivables and Payables**

All trade receivables are shown net of allowance for uncollectibles.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Restricted Assets**

Certain proceeds of the bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

**Capital Assets**

Capital assets, which include property, plant, and equipment, are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over 50 years.

Chain of Lakes Area Utilities Authority  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Assets, Liabilities and Net Assets or Equity—Continued*

**Long-Term Obligations**

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

**NOTE B—DEPOSITS AND INVESTMENTS**

As of March 31, 2007, the Authority voluntarily invested \$347,599 in an unrated external pooled investment pool (Pool). The Pool is an external investment pool of "qualified" investments for Michigan municipalities. The Pool is not regulated nor registered with the SEC. The fair value of the Authority's investments is the same as the fair value of the Pool.

**Interest rate risk.** The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The Authority has no investment policy that would further limit its investment choices.

**Concentration of credit risk.** The Authority does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of March 31, 2007, \$122,163 of the Authority's bank balance of \$411,935 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk - investments.** The Authority does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**Foreign currency risk.** The Authority is not authorized to invest in investments which have this type of risk.

**Restricted assets.** Restrictions are placed on assets by bond ordinance and Authority Board action. At March 31, 2007, cash and investments and special assessments were restricted for debt service.

Chain of Lakes Area Utilities Authority  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2007

**NOTE C—CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2007 was as follows:

	Balance April 1, 2006	Additions	Deductions	Balance March 31, 2007
<b>Capital assets, not being depreciated:</b>				
Land	\$ 250,000	\$ -	\$ -	\$ 250,000
<b>Capital assets, being depreciated:</b>				
Plant	7,715,569	41,933	-	7,757,502
Less accumulated depreciation	<u>(154,311)</u>	<u>(155,167)</u>	<u>-</u>	<u>(309,478)</u>
Total capital assets, being depreciated, net	<u>7,561,258</u>	<u>(113,234)</u>	<u>-</u>	<u>7,448,024</u>
Capital assets, net	<u><u>\$ 7,811,258</u></u>	<u><u>\$ (113,234)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,698,024</u></u>

**NOTE D—LONG-TERM DEBT**

**Summary of Changes in Long-Term Liabilities**

The following is a summary of long-term liabilities activity for the Authority for the year ended March 31, 2007.

	Balance April 1, 2006	Additions	Reductions	Balance March 31, 2007	Due within one year
Limited tax obligation bonds	\$ 6,350,000	\$ -	\$ 300,000	\$ 6,050,000	\$ 300,000
Intergovernmental loan	<u>381,904</u>	<u>-</u>	<u>122,584</u>	<u>259,320</u>	<u>127,242</u>
Total long-term debt	<u><u>\$ 6,731,904</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 422,584</u></u>	<u><u>\$ 6,309,320</u></u>	<u><u>\$ 427,242</u></u>

**Limited tax obligation bonds**

\$6,915,000 Limited Tax Obligation Bonds of 2002  
due in annual installment of \$265,000 to \$400,000  
through May 2022; interest at rates varying from 2.5%  
to 4.55%

\$ 6,050,000

**Intergovernmental loan**

\$500,000 County Board of Public Works Tax  
Revolving Loan of 2004 due in annual installments of  
\$137,096 through July 2008, including interest at  
3.8%

259,320  
\$ 6,309,320

Chain of Lakes Area Utilities Authority  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2007

**NOTE D—LONG-TERM DEBT—Continued**

**Summary of Changes in Long-Term Liabilities—Continued**

The Limited Tax Obligation Bonds due to the County of Newaygo represent an agreement with Newaygo County relating to the construction of sewage treatment facilities. To construct these facilities, the County issued bonds which the Authority is obligated to repay. The Authority has recorded the liability for the County bonds along with a capital asset. The contractual obligation is secured by the full faith and credit of the Authority and is guaranteed by the participating townships.

Annual debt service requirements to maturity for debt outstanding as of March 31, 2007 follows:

Year ending March 31,	Principal	Interest
2008	\$ 427,242	\$ 241,267
2009	457,078	227,057
2010	350,000	211,475
2011	350,000	199,663
2012	375,000	186,506
2013-2017	1,950,000	711,913
2018-2022	2,000,000	308,400
2023	400,000	9,100
	<u>\$ 6,309,320</u>	<u>\$ 2,095,381</u>

**NOTE E—OTHER INFORMATION**

**Risk Management**

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority manages its liability and property risk by purchasing commercial insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Subsequent Event**

The Authority has a five-year agreement with an outside third party to manage the Authority's day to day activities. This agreement requires a monthly payment amount of approximately \$18,750 plus reimbursement for various other costs. Total expense under this agreement for the year ended March 31, 2007 was \$244,226.

In May 2007, the Authority agreed to terminate the agreement. As part of this termination, the Authority agreed to pay the vendor a one time termination fee of \$45,000.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

July 16, 2007

Board of Directors  
Chain of Lakes Area Utilities Authority  
Newaygo, Michigan

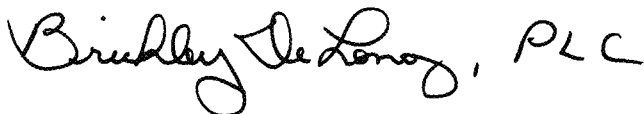
In planning and performing our audit of the basic financial statements of Chain of Lakes Area Utilities Authority as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Chain of Lakes Area Utilities Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Chain of Lakes Area Utilities Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Chain of Lakes Area Utilities Authority's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified and we have attached deficiencies in internal control that we consider to be significant deficiencies.

This communication is intended solely for the information and use of management, the Board of Directors, others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.





## SIGNIFICANT DEFICIENCIES

Recommendation 1: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year end financial statements.

The Organization should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles

Recommendation 2: The internal control procedures should be further segregated.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining an accounting system with strong internal accounting controls including significant segregation of duties.

The Authority should continue using its current accounting system, but seek opportunities to further segregate duties and strengthen internal controls. Often, the most effective approach is the expansion of documented approval of transactions and reconciliations by the Board of Directors.